



Annual Report 1979 · H. Paulin & Co. Limited

DIRECTORS

*Dr. Irving Betcherman, Toronto
Arnold B. Irwin, Toronto
Ayton G. Keyes, Ottawa
*Arthur Paulin, Toronto
Stanley F. Paulin, Toronto
*Vincent P. Reid, Q.C., Toronto

Harvey G. Kotler, Q.C., Toronto

Director, Betab Investments Limited
President, Irwin Toy Limited
President, Keyes Investments Limited
H. Paulin & Co. Limited
H. Paulin & Co. Limited
Vice-President, Walwyn Stodgell Cochran
Murray Limited

Partner, Robins and Partners

*Member of the Audit Committee

OFFICERS

Arthur Paulin
Stanley F. Paulin
Frank Juriansz
Joyce Mair

President
Vice-President, Secretary
Vice-President, Purchasing
Treasurer

HEAD OFFICE

AUDITORS

LEGAL COUNSEL

TRANSFER AGENT AND REGISTRAR

SHARES LISTED

55 Milne Ave., Scarborough, Ont.
Touche Ross & Co., Toronto, Ont.
Robins and Partners, Toronto, Ont.
Canada Trust Company,
Toronto, Vancouver, Edmonton
and Winnipeg
The Toronto Stock Exchange

The Company: H. Paulin & Co. Limited was founded in 1920 by the late Mr. Harry Paulin.

The Company manufactures and distributes industrial fasteners and automotive parts, bolts, nuts, screws and fluid system components.

Major markets include the automotive industry, both original equipment and the aftermarket, agricultural, electrical and appliance industries. Company products are sold under these trademarks:

"Papco", "Pic-a-Pac", "Easy-Spot", "Tri-Lok", "Uni-Bolt", etc.

The head office and main plant are at 55 Milne Avenue, Scarborough, Ontario. Warehouse stocks are maintained in Montreal, Que., Winnipeg, Man., Edmonton, Alta., and Vancouver, B.C.



Annual Report 1979 H. Paulin & Co., Limited

Financial Highlights	1979	1978
Sales	\$20,869,506	\$17,883,634
Net Income	\$ 1,069,461	\$ 904,210
*Earnings per Share	\$ 1.02	\$ 0.86
Dividend Paid	\$ 210,000	\$ 247,234
*Dividend per Share	\$ 0.200	\$ 0.235†–
*Shareholder's Equity per Share	\$ 8.55	\$ 7.73
Working Capital	\$ 7,977,861	\$ 7,247,368

*Based on 1,050,000 shares outstanding. †Includes Special Dividend of 8.5 ¢

To our Shareholders

It is a pleasure for me to report to you that 1979 was a record year for Company sales and profits. Sales at \$20,870,000 exceeded the previous year by nearly 17% and profits of \$1,069,000, or \$1.02 per share, were up over 18%.

There was a further improvement in our financial position in 1979. Working capital increased by \$730,493 to \$7,977,861 and shareholder's equity per share rose to \$8.55.

A most significant development was the acquisition in December 1979 of Precision Fasteners Canada Limited. This company was dissolved and is now being operated as a division of Paulin. Precision is a manufacturer of small screws and brings additional capacity and special expertise to our organization.

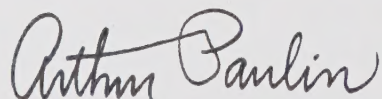
During the year, \$526,000 was invested in new equipment including the purchase of the Precision operation. No major capital equipment expenditures are planned at present.

Dividends at an annual rate of 20¢ per share, amounting to \$210,000, were paid during 1979.

Despite the decline in orders from the original equipment automotive producers that occurred in the latter part of the year we were able to maintain our sales levels by improved demand from our other markets. First quarter results in 1980 indicate sales increased over last year, but the rate of increase is declining. The automotive industry both influences and reflects the general economy and we cannot anticipate new records until vehicle production and usage begin to increase.

As we enter our 60th year, I want to thank all of our employees, our suppliers and our customers for their participation in our Company growth and express the hope that this valuable relationship will continue in the years ahead.

On behalf of the Board of Directors, I wish to present to you the financial statements for the year ended December 31, 1979.

A handwritten signature in cursive script that reads "Arthur Paulin".

May 12, 1980

Operations:

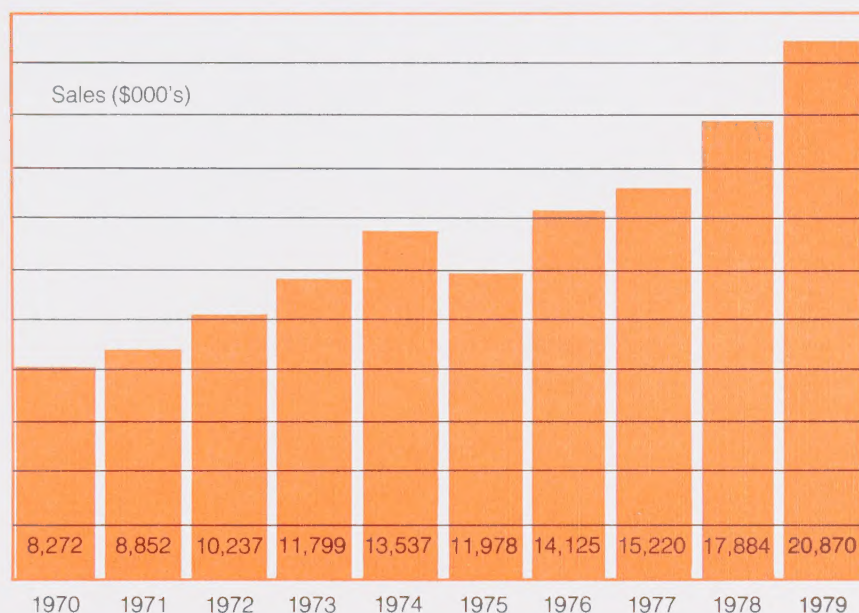
Manufacturing levels in the Boltmaking, Nutforming and Stamping sections were satisfactorily maintained throughout a year of record production.

The acquisition of Precision Fasteners added to our production facilities for the manufacture of thread cutting, thread forming and custom designed screws.

New equipment in the Automatic Screw Machine division increased our capacity to manufacture standard and special precision screw machine products for our Fluid Flow division.

Marketing:

Our versatile manufacturing base combined with our broad product line enabled the Company to establish the highest sales in its history. As the automotive and construction industries declined, greater marketing efforts were exerted in other areas to maintain the sales growth. Large gains were realized in the sale of non-ferrous and stainless fasteners in the electrical and communication field.



Automotive aftermarket

The concern for vehicle maintenance contributed to the 17% growth in the Canadian automotive aftermarket. This division was able to better the industry rate by further increasing its market share. Strong performance by traditional customers and our successful entry into new market sectors contributed to the gains. The "Papco" line is expected to continue its above average growth.

Industrial and hardware distributors

Throughout most of the year there was exceptional demand by our industrial fastener customers. The reduction in activity only became apparent in the final quarter as the ripple effect of the major cutbacks was felt by almost all of our customers. Our product is used extensively in the D.I.Y. consumer market and those distributors serving this market are continuing to experience satisfactory volume.

Fluid flow components

Strong growth continued in this division as demand for fittings used in propane installation increased. Sales were helped by the support of additional plumbing and heating distributors.

Locking fasteners

This division has continued to meet the ever increasing demand for safer and more reliable means of product assembly. Our new high speed "SCOTCH-GRIP" Brand Adhesive Coating equipment was installed in 1979 and is providing a much needed service for Canadian fastener producers and users.

Outlook

Growth in the automotive manufacturing industry is not likely to resume during the current year and this will affect our 1980 results. We believe that as interest rates decline, business activity will accelerate and we are confident that by the fourth quarter an improvement in the economy will be apparent.



H. Paulin & Co., Limited and its wholly-owned subsidiary (Incorporated und

Consolidated balance sheet · December 31, 1979

ASSETS	1979	1978
Current		
Accounts receivable	\$ 3,929,804	\$ 3,252,421
Inventories	9,503,345	6,939,410
Sundry assets and prepaid expenses	90,146	80,508
Income taxes recoverable	<u>236,436</u>	<u>—</u>
	13,759,731	10,272,339
 Plant, equipment and leasehold improvements, at cost	 4,169,102	 3,683,620
Less accumulated depreciation and amortization	<u>2,620,104</u>	<u>2,371,645</u>
	1,548,998	1,311,975
	 <u><u>\$15,308,729</u></u>	 <u><u>\$11,584,314</u></u>

the laws of Ontario)

with comparative figures for 1978)

LIABILITIES	1979	1978
Current		
Bank indebtedness (Note 2)	\$ 2,986,254	\$ 1,233,239
Accounts payable and accrued charges	2,417,708	1,375,348
Income Taxes payable	—	145,654
Deferred income taxes	<u>377,908</u>	<u>270,730</u>
	5,781,870	3,024,971
Deferred income taxes	481,427	440,817
Note payable (Note 3)	<u>67,445</u>	<u>—</u>
	6,330,742	3,465,788
SHAREHOLDERS' EQUITY		
Capital Stock (Note 4)		
Authorized		
2,000,000 Class A convertible common shares without par value		
2,000,000 Class B convertible common shares without par value		
2,000 common shares without par value		
Issued		
1,050,000 Class A and B shares	1,016,188	1,016,188
Retained earnings	<u>7,961,799</u>	<u>7,102,338</u>
	<u>8,977,987</u>	<u>8,118,526</u>
	<u>\$15,308,729</u>	<u>\$11,584,314</u>

On behalf of the Board

Arthur Paulin
Director

Stanley F. Paulin
Director



H. Paulin & Co., Limited and its wholly-owned subsidiary

Consolidated statement of income and retained earnings

for the year ended December 31, 1979

(with comparative figures for 1978)

	1979	1978
Sales	<u>\$20,869,506</u>	<u>\$17,883,634</u>
Income from operations before the following charges	<u>\$ 5,515,890</u>	<u>\$ 4,694,964</u>
Selling, general and administrative expenses	3,317,193	2,810,285
Depreciation and amortization	289,047	273,790
Interest	184,713	159,879
	<u>3,790,953</u>	<u>3,243,954</u>
Income before provision for income taxes	1,724,937	1,451,010
Provision for income taxes	<u>655,476</u>	<u>546,800</u>
Net income for the year	1,069,461	904,210
Retained earnings at beginning of year	<u>7,102,338</u>	<u>6,445,362</u>
	<u>8,171,799</u>	<u>7,349,572</u>
Dividend	210,000	247,234
Retained earnings at end of year	<u>\$ 7,961,799</u>	<u>\$ 7,102,338</u>
Earnings per share	<u>\$ 1.02</u>	<u>\$ 0.86</u>
Dividend per share	<u>\$ 0.20</u>	<u>\$ 0.235</u>

Auditors' report

The Shareholders,
H. Paulin & Co., Limited

We have examined the consolidated balance sheet of H. Paulin & Co., Limited as at December 31, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Consolidated statement of changes in financial position

for the year ended December 31, 1979

(with comparative figures for 1978)

	1979	1978
Source of funds		
From operations		
Net income for the year	\$1,069,461	\$ 904,210
Add (deduct) items not requiring an outlay of funds		
Depreciation and amortization	289,047	273,790
Deferred income taxes	(6,866)	(29,998)
Total from operations	1,351,642	1,148,002
Note payable	67,445	—
	<u>1,419,087</u>	<u>1,148,002</u>
Application of funds		
Acquisition of fixed assets, net	379,211	197,801
Dividend	210,000	247,234
Acquisition of assets of subsidiary company, less working capital acquired of \$248,602 (Note 3)	99,383	—
	<u>688,594</u>	<u>445,035</u>
Increase in working capital	730,493	702,967
Working capital at beginning of year	7,247,368	6,544,401
Working capital at end of year	<u>\$7,977,861</u>	<u>\$7,247,368</u>

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Toronto, Ontario.
April 11, 1980

Chartered Accountants



H. Paulin & Co., Limited and its wholly-owned subsidiary

Notes to the consolidated financial statements December 31, 1979

1. Summary of significant accounting policies

a. Consolidation

The consolidated financial statements include the accounts of H. Paulin & Co., Limited and its wholly-owned subsidiary company.

b. Inventories

Inventories are valued at the lower of cost and net realizable value.

c. Plant, equipment and leasehold improvements

Expenditures for additions and major improvements to office fixtures, vehicles and leasehold improvements are capitalized while those for maintenance and repairs are expensed as incurred. The costs and accumulated depreciation applicable to assets sold or retired are removed from the respective accounts and gains or losses thereon are credited or charged to income.

Provision for depreciation is computed primarily by the straight-line method based on the estimated useful lives of the related assets. Leasehold improvements are amortized by the straight-line method over the terms of the leases.

d. Deferred income taxes

Deferred income taxes arise primarily from timing differences between financial and income tax reporting of depreciation charges.

e. Foreign currencies

Current assets and current liabilities stated in foreign currencies have been translated to Canadian funds at the rate of exchange as at December 31, 1979, and transactions during the year have been translated at the then prevailing rates.

2. Bank indebtedness

The Company has given a general assignment of its accounts receivable as security for its bank indebtedness.

3. Acquisition and dissolution of subsidiary

On December 7, 1979 the Company acquired all of the issued and outstanding capital stock of Precision Fasteners Canada Limited, manufacturers of industrial fasteners, for a total consideration of \$347,445 comprising working capital of \$248,062, fixed assets of \$146,859 and deferred income tax payable of \$47,476. Consideration was discharged by the payment of \$80,000 cash and the issue of notes payable of \$267,445. The acquisition has been accounted for by the purchase method.

On December 8, 1979 Precision Fasteners Canada Limited was dissolved pursuant to Section 247 of the Business Corporations Act - Ontario. At this date the Company assumed responsibility for the subsidiary company's assets and liabilities. The results of the business for the period December 8 to December 31, 1979 are reflected in these consolidated financial statements.

4. Capital stock

- a. Class A and B shares are inter-convertible on a share for share basis and the rights of each class are identical. Both classes of shares rank equally as to dividends. Changes in the issued capital stock during the year were as follows:

	Class A	Class B	Total
Common shares outstanding at beginning of year	288,103	761,897	1,050,000
Class B shares converted to Class A shares	3,700	(3,700)	—
Common shares outstanding at end of year	291,803	758,197	1,050,000

- b. Under a proposed stock option plan, 50,000 shares (1978 — 50,000 shares) were reserved as at December 31, 1979; no options have been granted under this plan.

5. Lease obligations

Annual rentals payable under operating long-term leases which expire at various dates up to 1989 are approximately \$260,000.

Ten year statistical summary

Years ending December 31, 1970 — 1979

Dollars in thousands except as indicated†	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Sales	8,272	8,852	10,237	11,799	13,537	11,978	14,125	15,220	17,884	20,870
Depreciation	96	118	132	173	195	239	275	267	274	289
Income Taxes	306	455	626	626	830	542	607	364	547	655
Net Income	276	454	654	757	929	669	737	627	904	1,069
Earnings per Share*†	0.26	0.43	0.62	0.72	0.885	0.637	0.702	0.597	0.861	1.02
Net Income % of Sales	3.3	5.1	6.4	6.4	6.9	5.6	5.2	4.1	5.1	5.1
Additions to Fixed Assets	260	223	216	510	539	367	206	139	198	526
Working Capital	2,432	2,733	3,784	4,114	4,754	5,297	5,972	6,544	7,247	7,978
Shareholders' Equity	2,728	3,181	4,424	5,053	5,865	6,413	6,993	7,462	8,119	8,978
Return on Equity %	10.7	15.4	17.2	16.0	17.0	10.9	11.0	8.7	11.6	12.5

*Based on 1,050,000 shares outstanding as at December 31, 1979.

Earnings per share

